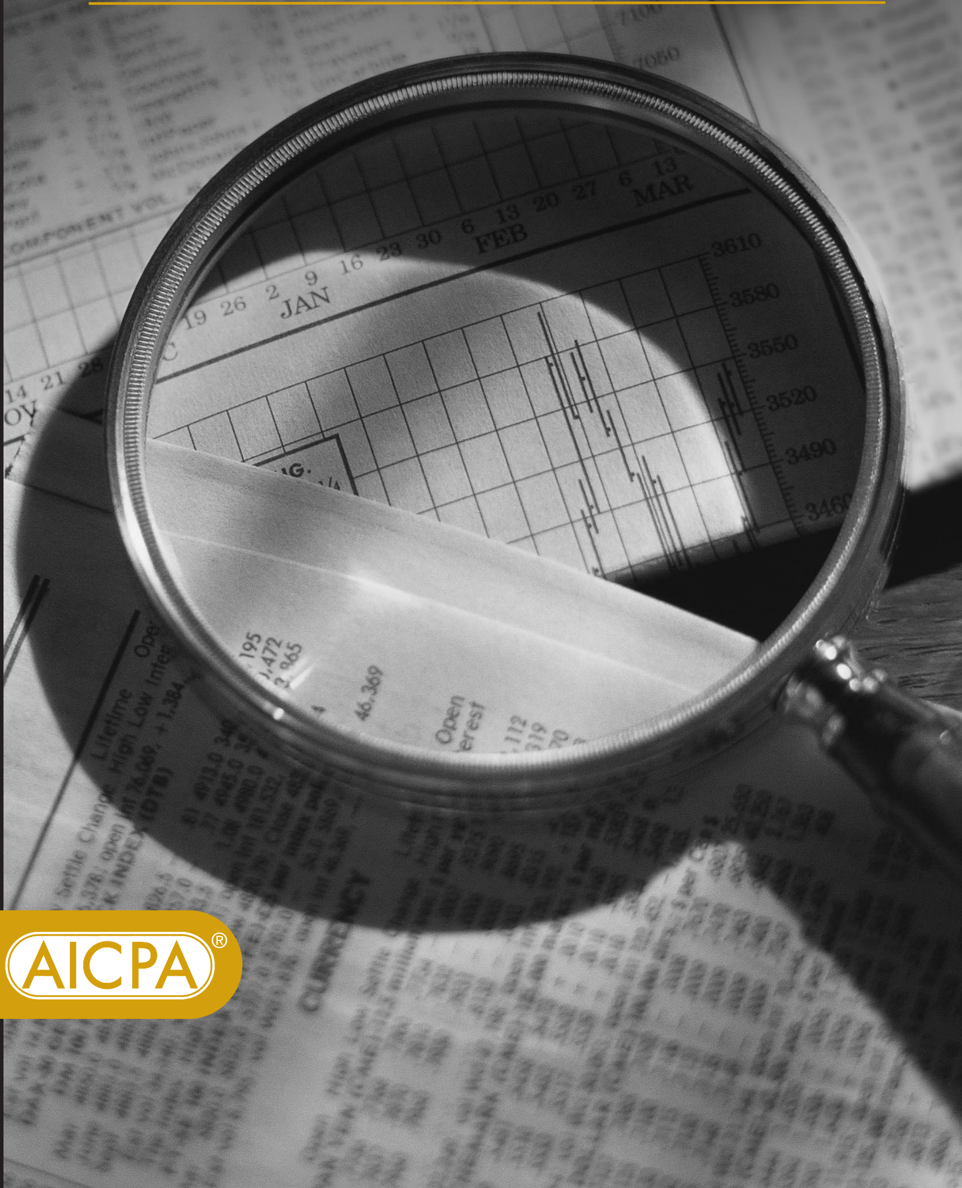
2005

Construction contractors accounting developments - 2005/06; Financial reporting alerts

American Institute of Certified Public Accountants

FINANCIAL REPORTING ALERTS

Construction Contractors Accounting Developments—2005/06



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FINANCIAL REPORTING ALERTS

Construction Contractors Accounting Developments—2005/06

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Notice to Readers

This Financial Reporting Alert is intended to provide accountants in the construction industry with an overview of recent economic, industry, technical, and professional developments that may affect their financial reporting.

This document has not been approved, disapproved, or otherwise acted on by a senior technical committee of the AICPA.

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How This Alert Can Help You

The knowledge that this Financial Reporting Alert delivers can assist you in achieving a more robust understanding of the business environment in which your company operates. Also, this Alert delivers information about current accounting and regulatory developments. This Alert describes trends and issues facing most contractors in many of the construction markets in the country.

References to Professional Standards. When referring to the professional standards, this Alert cites the applicable sections of the codification and not the numbered statements, as appropriate. For example, Statement on Auditing Standards (SAS) No. 95 is referred to as AU section 150 of the AICPA *Professional Standards*.

Industry and Economic Developments

Effects of Hurricane Katrina

The physical and psychological damage caused by Hurricane Katrina is likely to reverberate across the global economy in ways that will curb growth well into 2006, economists say. Most economists predict, however, that Hurricane Katrina will reduce, not derail, U.S. economic growth.

A spike in already-high energy costs in the United States and around the world tops the list of risks, especially since oil prices are unlikely to return to the levels of early 2004 when they were 50 percent lower than they are today. Hurricane Katrina shut down large portions of oil and gas production in the Gulf of Mexico at a time when worldwide energy output was already stretched thin. While the storm's impact was most acute in the United States, it also sent fuel costs higher around the globe, squeezing consumers in Europe and Asia and hurting everyone from truckers to fishermen to airlines. But most analysts agree that the sharp increase in gasoline prices since the storm was a "temporary disruption." Oil industry officials say that several refineries and pipelines will soon be back in operation. Initially, 25 percent of U.S. crude oil production and a large portion of refining capacity were knocked out by the storm. Much of the pressure on oil supplies has been relieved by the release of 60 million barrels from emergency supplies. The full extent of the damage to oil and natural gas infrastructure in the Gulf of Mexico is not yet known, but it is expected to be some time before output is back to normal. The same goes for the facilities that refine crude oil into gasoline, heating oil, and jet fuel.

The storm also wiped away up to half a million jobs in New Orleans and other Gulf Coast areas. And its tab is almost certain to top $100 billion, with only about a quarter of that covered by insurance, according to an assessment by Risk Management Solutions of Newark, Calif.

The federal government has pledged billions of dollars of rebuilding funds, but it will take months for the basic recovery efforts to be completed before the money for reconstruction starts flowing.

In Katrina's aftermath, forecasts for U.S. economic growth in the fourth quarter have dropped from 3.5 percent on an annualized basis to 2.5 percent. And that is probably what gross domestic product will average for all of 2006, economists said.

Some local economies will no doubt benefit from the fact that New Orleans will be out of commission for months. Tourists who might have visited the Big Easy will go elsewhere, corporate conferences will be relocated, and cities throughout the South will witness a tightening of their rental housing markets as evacuees from New Orleans reestablish their lives elsewhere.

But when winter arrives and the higher cost of home heating strikes the Northeast and Midwest, consumer spending, particularly among lower income families, is expected to take a notice-able hit. Michael P. Niemira, chief economist at the International Council of Shopping Centers, said the U.S. retail sector will face its toughest Christmas since the September 11, 2001, terrorist attacks.

While the humanitarian situation is horrific, the economic blow may not be as bad as first feared. Treasury Secretary John Snow and Federal Reserve Chairman Alan Greenspan have stated that it would not have a significant long-term effect on the U.S. economy, although growth will be slowed for a short period. Mr. Snow described the impact of the hurricane as mind-boggling and acknowledged that the U.S. economy was facing a challenging time. But its inherent strength, he said, meant that economic growth would only be hit for three to four months.

The Gulf Coast was hit again just three and a half weeks after Hurricane Katrina, by Hurricane Rita, a category 3 storm. Although Hurricane Rita caused far less destruction than Katrina, it still caused between $2.5 billion to $6 billion in insured damage.

The rebuilding of the Gulf Coast after Hurricanes Katrina and Rita will likely have a positive effect on the construction industry. The opportunities for new work will be immense, and while it has positive implications for contractors, it will also present many challenges as well. As a result of the expected increase in construction, contractors may face the following risks:

- Accepting work beyond their abilities to manage
- Accepting work that could put dangerous pressures on their financial capacity (for example, not having sufficient working capital)
- Expanding their labor force with people who are unfamiliar with the entity's practices and methodologies.

General Industry Trends and Conditions

Construction activity through July showed widespread improvement compared to the first seven months of 2004, but the devastation wrought by Hurricanes Katrina and Rita will have varied impacts on construction markets for the rest of 2005 and into 2006.

Construction outlays in July were reported at a seasonally adjusted annual rate of $1.099 trillion, unchanged from June, which was revised up from a previously reported $1.093 trillion. June spending was restated as a 0.6 percent decline from a 0.3 percent fall previously reported.

The gains were well distributed. Private residential construction climbed 12 percent year-to-date, private nonresidential was up 5.3 percent, and public construction was 5.8 percent higher. Within the private residential market, multifamily construction jumped 20 percent, nearly twice the growth rate for single-family and improvements. Manufacturing construction continued to lead the private nonresidential category with a 27 percent year-to-date advance, followed by "multiretail" (general merchandise stores, shopping centers, and shopping malls), 23 percent; communications, 12 percent; and lodging, 9.4 percent. The leading public categories, educational and highways and streets, were up 5.9 and 7.2 percent, respectively.

However, these figures overstate "real" growth because they don't adjust for a large run-up that has occurred in the cost of cement, steel, copper, gypsum, and petroleum-based inputs. Unfortunately, Hurricanes Katrina and Rita will push many of these costs much higher. Contractors use a lot of diesel fuel for off-road equipment, their own trucks, and the multitude of deliveries of materials and equipment. Petroleum or natural gas is a key ingredient in asphalt, roofing materials, plastic pipe, and insulation. And energy costs are built into the price of mining, milling, making, molding, and transporting metals, concrete, and most other construction materials.

Cement was already in short supply in 32 states and the District of Columbia, and the disruption to ocean, barge, and rail transport from Hurricanes Katrina and Rita, and the loss of power to cement plants in the storm's path, will cut further into cement supplies. At the same time, the urgent need to stabilize and rebuild roads, other infrastructure, and buildings will increase demand for cement and other materials.

Construction Put in Place

One of the most widely used measures of construction activity is *construction put in place*, which is tracked monthly by the Bureau of Statistics at the U.S. Department of Commerce. The *value of construction put in place* (value-in-place) is a measure of the value of construction installed or erected at the site during a given period. For an individual project, this includes:

- New buildings and structures.
- Additions, alterations, major replacements, and so on, to existing buildings and structures.
- Installed mechanical and electrical equipment.
- Installed industrial equipment, such as boilers and blast furnaces.
- Site preparation and outside construction, such as streets, sidewalks, parking lots, utility connections, and so on.
- Cost of labor and materials (including owner supplied).
- Cost of construction equipment rental.
- Profit and overhead costs.
- Cost of architectural and engineering (A&E) work.
- Any miscellaneous costs of the project that are on the owner's books.

The total value-in-place for a given period is the sum of the value of work done on all projects under way during this period, regardless of when work on each individual project was started or when payment was made to the contractors. For some categories, estimates are derived by distributing the total construction cost of the project by means of historic construction progress patterns.

Exhibit 1, "New Construction Put in Place," presents details of construction put in place for various market segments. (Note that the amounts are in billions of dollars and represent seasonally adjusted annual rates.) To add some perspective, in January 1992, at the start of the current construction boom, the total new construction put in place was $452 billion, as compared with the estimated 2005 amount of $1,099 billion—a gain of more than 143 percent during the period.

Exhibit 1 New Construction Put in Place

(Billions of Dollars-Seasonally Adjusted Annual Rate, in Current Dollars)

	July 2005	*July 2004*
Private construction	856.1	758.3
Public construction	243.2	238.9
Total construction	**1,099.3**	**997.2**
Residential building	615.8	537.5
Nonresidential building		
Office	33.9	31.4
Power	24.8	24.0
Commercial	65.4	61.6
Lodging	11.7	11.6
Other nonresidential	104.5	92.2
Total nonresidential	240.3	220.8
Total private construction	**856.1**	**758.3**
Highways and streets	63.9	65.7
Infrastructure	35.1	28.9
Educational	63.7	63.8
Other public buildings	23.8	24.3
Other public construction	56.7	56.2
Total public construction	**243.2**	**238.9**

The U.S. Census Bureau of the Department of Commerce announced that construction spending during July 2005 was estimated at a seasonally adjusted annual rate of $1,099.3 billion, nearly the same as the revised June estimate of $1,099.7 billion. The July figure is 6.0 percent above the July 2004 estimate of $1,037.5 billion. During the first seven months of this year, construction spending amounted to $617.9 billion, 9.3 percent above the $565.4 billion for the same period in 2004.

Spending on private construction was at a seasonally adjusted annual rate of $856.2 billion, 0.2 percent above the revised June estimate of $854.5 billion. Residential construction was at a seasonally adjusted annual rate of $615.8 billion in July, 0.2 percent above the revised June estimate of $614.6 billion. Nonresidential construction was at a seasonally adjusted annual rate of $240.4 billion in July, 0.2 percent above the revised June estimate of $239.9 billion.

In July, the estimated seasonally adjusted annual rate of public construction spending was $243.2 billion, 0.8 percent below the revised June estimate of $245.2 billion. Educational construction was at a seasonally adjusted annual rate of $63.7 billion, 0.6 percent below the revised June estimate of $64.1 billion. Highway construction was at a seasonally adjusted annual rate of $63.9 billion, 2.4 percent below the revised June estimate of $65.5 billion.

> **Help Desk**—You can access current statistics of construction put in place and other construction industry information at www.census.gov.

Private Construction

Residential Building

The residential building segment of the construction industry includes new single- and multifamily housing as well as residential repairs and improvements. Conditions with the most impact on the demand for residential construction include the following:

- *Housing affordability.* Housing affordability is the extent to which potential buyers have the means to purchase a home. Affordability can be measured in several ways by considering average home prices and income levels. For example, some analysts create an "affordability index" by comparing median home prices to household income levels. As income levels get closer to housing prices, the average home becomes affordable to more local residents.

- *Interest rates.* Most homes are financed, and interest rates therefore have a tremendous effect on the affordability of housing. As interest rates rise, the cost of home financing increases; as they fall, the cost of financing decreases. However, interest rate changes do not have an immediate impact on home-buying markets—usually rates have to be in effect for several quarters to reverse home-buying trends.

- *Land availability/pricing.* As one of the major costs of residential building, land availability and pricing have a major impact on the affordability of housing. With land suitable for residential building becoming scarce in certain parts of the country, housing prices will be affected.

- *Demographics.* Shifts in demographics can have a significant impact on housing demand. For example, the aging of the U.S. population has increased demand for low-maintenance and multifamily housing. A large number of baby boomers are now entering their peak earning years, which is expected to affect the affordability and demand for single-family homes.

- *Market velocity.* According to industry sources, more than half of all home improvements occur within 18 months after a new owner moves in, or within 12 months before the home is sold. Thus, during times when new and used home markets are active, residential remodeling and improvement activity also increases.

As one of the main drivers of construction's recent 10-year expansion, home building continues to lead the industry's growth. However, there are signs that years of strong growth in the national housing market may finally be leveling off. Overall, new housing starts in July, which include apartment buildings and condominiums, were flat. The new housing figures, released by the Commerce Department, bolster the view of economists who have predicted a gradual slowdown in housing starts and an easing of price increases as mortgage rates tick up with the prospect of passing the 6 percent mark by next year.

Although sales have certainly been sizzling this year, putting the country on track for a fifth straight year of record purchases of new and existing homes, homes in some areas are staying on the market longer before they sell and the Mortgage Bankers Association reports that its index of demand for home mortgages now stands 11 percent below a June peak.

The issue of how much of a slowdown will occur and whether home prices will fall or just not rise at double-digit rates will depend to large extent on the course of interest rates in coming months.

Ironically, the devastation from Hurricanes Katrina and Rita could turn out to help the housing industry, mainly through falling interest rates. Investors pushed rates lower after the storms in anticipation that the hurricanes and the resulting surge in energy prices would act as a drag on economic growth and could persuade the Federal Reserve to pause in its 14-month campaign to push rates higher. As a result, rates on 30-year mortgages dipped to 5.71 percent, down from a high this year of 6.04 percent set in late March.

David Seiders, chief economist for the National Association of Home Builders, said rebuilding from the hurricanes' devastation probably will not have much impact on the overall housing market since residential building permits for all of Louisiana and Mississippi last year amounted to just 1.8 percent of the national total.

But analysts are forecasting that housing sales will begin to decline from record levels by the end of this year and into 2006. The slowing sales pace is expected to end the super-sized price gains many parts of the country have experienced.

Nonresidential Building

Nonresidential building in July grew 3 percent to an annual rate of $172.1 billion. Much of the upward push came from health care facilities, which soared 42 percent. July included the start of five large projects valued at $100 million or higher, including a $300 million hospital in Cleveland, Ohio; a $148 million hospital complex in San Francisco, Calif.; a $140 million hospital expansion and seismic upgrade in Seattle, Wash.; a $135 million hospital addition in Jacksonville, Fla.; and a $106 million hospital in Granville, N.C. Showing large percentage gains compared to weak contracting in June were transportation terminals, up 81 percent; and manufacturing plants, up 66 percent. Growth was also registered in July by warehouses, up 17 percent; and stores, up 3 percent.

Nonresidential building in July showed reduced contracting for hotels, down 37 percent; and offices, down 15 percent. For both structure types, the declines were relative to a June that was the strongest month so far in 2005. On the institutional side, July showed a slower pace for churches, down 1 percent; public buildings (courthouses and detention facilities), down 2 percent; school construction, down 6 percent; and amusement-related projects, down 18 percent.

Office Market

The U.S. office market took a big step toward recovery in the second quarter, with absorption exceeding 30 million square feet and the vacancy rate falling below 15 percent. Healthy demand for office space was widespread, with both downtown and suburban markets enjoying a robust quarter. Office construction picked up slightly but is still at relatively low levels. Rents posted another modest increase, continuing a trend for the past several quarters.

Office construction took a surprising jump in the second quarter, with 12.6 million square feet completed—the most since the fourth quarter of 2003, when 16.1 million square feet were completed. This was 18.9 percent more than the 10.6 million square feet completed in the first quarter or the 11.6 million square feet completed in the second quarter of 2004. Office construction has been subdued since the middle of 2002, with completions barely averaging 10 million square feet per quarter.

The outlook for the office market remains positive for the third quarter and indeed for the balance of 2005. The most important feature of the first half of the year was the sustained growth in employment. The first quarter saw job creation total 546,000, followed by a further 542,000 new jobs in the second quarter.

Specific to the office market, "office-using employment" increased by 154,000 in the first quarter and 153,000 in the second quarter. Second half projections show continued job creation, which can only be good news for office markets. On the supply side, new office construction is expected to pick up in coming quarters as under-construction activity jumped from 40.3 million square feet at the end of the first quarter to 58.4 million square feet at the end of the second quarter.

Industrial Market

The industrial real estate market experienced an extremely robust second quarter this year, with absorption totaling 69.4 million square feet—far surpassing the 40.9 million square feet recorded during the first quarter of 2005 and 42.2 million square feet during the second quarter of 2004—according to a report by Colliers International, the global real estate services firm.

All the drivers of the U.S. industrial market are going strong—with a subsequent greater need for warehouse space, according to Colliers International. Transportation and distribution companies, manufacturers, retailers, the housing market, and consumer spending all continue to post positive results. There are no indications the industrial market will wane anytime soon.

New construction during the second quarter totaled 30.5 million square feet, exceeding both the 23.2 million square feet recorded during the same quarter last year, and the 27.0 million square feet recorded during the first quarter of 2005. Almost half of the nation's new warehouse construction occurred in five markets: Chicago (2.9 million square feet), Atlanta (2.9 million square feet), Central New Jersey (2.9 million square feet), Seattle (2.7 million square feet), and Inland Empire of California (2.5 million square feet).

Retail and Other Commercial Markets

The favorable conditions witnessed over the past several years have continued into 2005 with the economy on the upswing, steady job creation, disposable income on the rise, and most importantly, consumers who continue to spend. This has led retailers to increase sales and open new stores in a wide variety of centers. Occupancy levels have increased and rents have moved higher. Community rents, neighborhood rents, and power center rents have all increased during the year by 9 percent, 4 percent, and 16 percent, respectively. Going forward, rising interest rates have some concerned, but leasing conditions generally look favorable for some time to come. However, some analysts are predicting that the U.S. retail sector will face its toughest Christmas since the September 11, 2001 terrorist attacks due to the effects of Hurricanes Katrina and Rita.

Hospitality Market

Hotel construction spending, which has been very erratic, is up 28 percent since the bottom of the hotel building cycle two years ago. Although hotel construction spending fell 10 percent in November and December of 2004 and January of 2005, most analysts expect a cumulative 66 percent increase by the end of 2006. That will bring the 2004-to-2006 gain to 80 percent compared to 125 percent during 1995-to-1997 at the same period in the previous building cycle.

The expected building boom is being fueled both by an unusually favorable real estate financial environment and by large increases in demand for hotel rooms. Last year, according to Smith Travel Research, hotel operators added only 1 percent more rooms while they raised the occupancy rate 4 percent and boosted room rates 4 percent. Hotel profits improved sharply, although only to the bottom of the normal range. Together with unusually cheap credit costs, this prompted investors to bid up the price of hotel properties enough that building a new hotel is now a better investment than buying an existing hotel in many markets.

Most real estate investors now believe that hotels offer higher returns than other types of commercial buildings. It is now much easier for hotel developers to get construction loans because real estate investment trusts (REITs) are flush with cash that they need to invest and developers have learned to add condos to hotel projects to use the condo down payments for some of their financing.

Portsmouth, N.H.-based Lodging Econometrics recently released its Lodging Development Forecast that reports the hotel "pipeline"—which consists of hotels in early planning stages and those under construction or scheduled to start in the next 12 months—increased for the fifth straight quarter in the first quarter of 2005, to 2,388. The hotel pipeline has been growing since it bottomed out in the fourth quarter of 2003, and the forecast looks bright for the future of hotel construction. The report predicts that an estimated 322,177 hotel rooms will be built between the first quarter of 2005 and the first quarter of 2006.

Help Desk—The demand for construction can vary significantly among different geographic regions. One of the most comprehensive analyses of commercial real estate demands and construction activity is published by the Society of Industrial and Office Realtors (SIOR). Annually, SIOR publishes *Comparative Statistics of Industrial and Office Real Estate Markets*, which provides detailed real estate and construction statistics on all the country's larger cities. You can purchase and download this publication directly from the publications section of the SIOR Web site at www.sior.com.

Public Construction

According to the Associated General Contractors of America (AGC), public construction is heading for a modest revival, with gains in highway, school, and most other categories. Highway construction will rise modestly. Congress approved a 2 percent increase in federal-aid funds for fiscal 2005 (ending September 30), with small increases likely in future years. State fuel and vehicle tax receipts, which typically fund the state share of highway spending, also are growing slowly.

Educational spending will benefit from the housing boom. Single-family houses appreciated 13 percent nationally in the year ending July-September 2004, according to the Office of Federal Housing Enterprise Oversight. Where property-tax assessments keep pace, school districts that depend on property taxes can afford more construction. School construction is likely to shift more toward high schools and away from elementary schools.

Census estimates show that the elementary-school population in 36 states has fallen since 2000 as the "baby boom echo" cohort is becoming older.

State higher-education construction, as well as other categories, will benefit from a pickup in state general-fund revenues. Income and sales tax receipts climbed 7.5 percent in fiscal 2004 (covering July 2003 to June 2004 for most states) after much slower growth in 2001 and 2003 and a sharp decline in 2002, according to a February 2005 tally by the Nelson A. Rockefeller Institute of Government. That will enable legislatures to reverse some of the construction cuts and freezes imposed in the last several years. However, delays in the design, permit, hearing, and contract phases that follow legislative approval mean the public pickup in construction may not gather steam until 2006. Meanwhile, federal assistance and direct spending for water, wastewater, and building construction are likely to slow by 2006 due to tight budgets for domestic discretionary programs.

Putting the pieces together yields a total for construction put in place in 2005 that will be close to the 2004 level, with growth resuming in all three segments by 2006. Meanwhile, more of the dollar total will represent new projects rather than merely higher materials prices.

The important news affecting public works, of course, is the August enactment of the new multiyear federal transportation bill, after a delay of close to two years. The new bill includes a 38 percent funding increase compared to the previous legislation, plus its passage removes the uncertainty over long-term financing that had hampered state departments of transportation.

Surety Industry Trends

The surety industry is critical to the well-being of the construction industry. Nearly half of all work performed by contractors is bonded, so any change in the surety market will have a significant effect on the construction industry.

Surety bonding is a rigorous process in which surety companies prequalify contractors and then guarantee that the contractors will complete their projects and pay first-tier subcontractors, laborers, and materials suppliers (those hired directly by the general contractors). Construction projects can involve three types of surety bonds:

- Bid bonds provide financial assurance that the bid has been submitted in good faith and that the contractor intends to enter into the contract at the bid price.

- Performance bonds protect the owner from financial loss should the contractor fail to perform the contract in accordance with its terms and conditions.

- Payment bonds guarantee that the contractor will pay subcontractors, laborers, and suppliers associated with the project. (Government property is not subject to mechanic's liens, meaning that laborers, suppliers, and subcontractors would be without redress if the contractor defaulted, and there were no payment bond.) Section 270 of the Miller Act, enacted in 1935, governs performance and payment bonds on federal construction projects.

Additionally, each of the 50 states, the District of Columbia, Puerto Rico, and almost all local jurisdictions have enacted legislation requiring surety bonds on public works projects. Generally referred to as "Little Miller Acts," those laws often set minimum thresholds for which state agencies and local governments may require surety bonds. Sometimes, no threshold is set, and the local entities themselves determine what minimum project value necessitates surety bonding.

While surety credit is similar to obtaining bank credit, it still is a form of insurance. Surety bonds and insurance both are risk transfer mechanisms that are regulated by state insurance commissioners, and both provide protection against financial loss.

Unlike other lines of insurance, however, surety actually is a form of credit. Whereas bankers either lend money or extend a line of credit, a surety grants a "pledge guarantee." The surety does not lend the contractor money but instead allows the surety's financial resources to be used to back the commitment of the contractor; if the contractor defaults, the surety pays for completion of the contractor's work.

The basic function of surety is prequalification. That process involves a surety underwriter taking an in-depth look at the contractor's entire business operation and thoroughly analyzing the contractor's financial strength and capacity to perform before credit is extended. The underwriter will concentrate on the three "C's"—character, capacity, capital—when making bond credit decisions.

To issue a surety bond, the surety must be confident that the contractor has good character, experience matching the requirements of its contracts, financial strength, an excellent credit history, an established banking relationship and line of credit, and ownership of (or the ability to obtain) the equipment to carry out the contract.

The surety industry has weathered the turbulent times of the late 1990s and the first years of the 21st century, and has come through intact and on course for a potential recovery. The large losses faced by the industry in the past few years served as a wakeup call to the industry. By returning to the fundamentals, namely solid underwriting practices, many experts believe that the industry is heading toward recovery. However, some of the sureties may experience some additional short-term losses as the result of loosening of underwriting standards demonstrated by some sureties in the 1990s.

Even though there have been a number of high-profile mergers in the surety market, there have been instances of surety company failures. In most cases, capacity remains sufficient to support the nation's construction needs. However, contractors in different market sizes may see changes in the near future and those contractors considered "marginal" may be dropped by their surety.

- Capacity for small and emerging contractors remains available, though they will be subject to the same underwriting standards as their larger peers. Small and start-up contractors who have difficulty meeting today's underwriting standards may opt to explore the U.S. Small Business Administration's Surety Bond Guarantee Program.

- The midmarket contractor is least likely to be affected by capacity issues. This segment is the primary target of the industry, and qualified contractors will continue to receive strong support. However, in some cases, contractors are being required to provide audited financial statements instead of reviewed financial statements, and some sureties are requiring quarterly reporting. The same back-to-basics underwriting standards apply: quality financials, capital retention, and personal and corporate indemnity are all required.
- Contractors in the $250 million-and-over market may need to address changes in the industry. Surety companies are less likely to assume the risks of massive, multiyear projects on their own. Co-sureties, segmented bonding, and joint ventures may be more common, due to the fact that approximately 80 percent of the reinsurers from the 1990s are gone because of the massive surety losses incurred in the past few years. The tightened reinsurance market is a factor in the need for more creative surety solutions on mega-projects.

There are also alternatives to surety, generally referred to as alternate products. These insurance products were originally designed to protect a general contractor from subcontractor default. Unlike a surety bond, an alternate product has a deductible and guarantees payment in the event of default, but not performance. Although this is a relatively new concept, some think it may be a way to circumvent some of the limitations of the surety industry.

With further consolidation in the marketplace, continued tight terms and conditions for surety credit will continue. With the 10 largest premium volume surety companies now controlling more than 65 percent of the market, it is likely that premium rates will increase. Less negotiation will be available on terms such as bonding subcontractors, acceptable contract specifications, full indemnity and other underwriting requirements. There will also likely be a rise in the frequency of credit schemes using creative, unlicensed surety entities and alternative products.

In some parts of the country, sureties are requiring clients to upgrade from reviews to audits. Other sureties are willing to accept reviewed financial statements when accompanied by a review of the client's internal controls. In some cases, sureties are also requiring quarterly financial statements, in addition to year-end statements. In addition, some smaller contractors are being required to strengthen their financial position with personal guarantees and additional indemnity.

Contractors can expect sureties to look at their work programs more closely, which can lead to changes in the amount of capacity sureties are willing to offer. Although many surety companies have the capacity to support an increased work program, they may not have the same appetite for risk as they have had in the past. Nevertheless, a contractor with a solid reputation and sound financials should have no problem obtaining the surety credit it needs. Overall, the surety industry is attempting to return to a healthy state and will continue to respond to the challenges in the construction industry.

At this critical juncture in the surety industry's life cycle, the following steps may be helpful to ensure that your company's surety relationship remains free from any dramatic exposure to the surety industry's changes. You may need to:

- Meet regularly with your surety underwriters and bond agents and foster a partnering relationship.
- Know your surety—its results, reinsurance, capacity limitations, credit, and AM Best (a worldwide insurance-rating and information agency) ratings.
- Plan for more lead time for larger or unique projects and major decisions.
- Provide high-quality and timely financial information.
- Understand the working capital and equity requirements for the bonding program.

- Understand the adjustments that the surety makes to the financial statements to arrive at bonding capacity.
- Involve your surety in major financial decisions.
- Understand the working capital and equity requirements for your bonding program (single and aggregate limit).
- Use a professional CPA and attorney who specialize in construction contractors and relationships with sureties.
- Use a professional surety broker who specializes in surety, and have a "backup" surety available in case the current surety is unable to provide proper coverage.

Construction Cost Trends

Cleaning up after Hurricanes Katrina and Rita could clean out construction suppliers over the next year. Builders working far away from the Gulf Coast are likely to experience shortages, lagging deliveries, and higher prices, experts say.

The fallout comes at a time of already-high demand for construction materials and equipment. Regional cement shortages are hurting contractors in many states. Availability of larger equipment, such as earthmoving machines, is tight. Nominal prices for highway diesel, averaging $2.59 per gallon, are at an all-time high. Each week brings a new record in diesel prices, according to the U.S. Department of Energy. And Hurricanes Katrina and Rita will push many of these costs much higher, according to Ken Simonson, chief economist for the Associated General Contractors of America.

Heavy equipment dealers in the Gulf Coast area expect to see a run-up for construction machines, such as crawler dozers, excavators, and wheel loaders. The region's need for equipment over the next 12 months is going to be twice the normal demand, experts say.

Machinery analysts have forecasted per-unit sales of construction equipment to increase by a hearty 8 percent to 10 percent this year. Hurricanes Katrina and Rita may push up next year's modest forecast of 2 percent to 5 percent.

The crunch could tighten global supplies of construction machinery, whose demand is expected to rise to $106 billion by 2009 from last year's $81.4 billion, according to Freedonia Group Inc., a market research firm in Cleveland. U.S. machinery exports climbed a staggering 44 percent during this year's first half, according to the Milwaukee-based Association of Equipment Manufacturers.

Ready-mix concrete prices are up 16 percent since they began to rise quickly late in 2003. Prices rose 0.9 percent in March and April but declined slightly in May and June. The price increases to date have been driven by sharply higher imports of cement at premium prices, strained capacity at U.S. cement plants, and bigger margins for ready-mix suppliers. Also, higher diesel and natural gas prices have contributed to cost increases at cement plants and ready-mix fleets.

Cement was already in short supply in 32 states and the District of Columbia before the hurricanes and the disruption to ocean, barge, and rail transport from the storm, as well as the loss of power to cement plants in the storm's path, will cut further into cement supplies. At the same time, the urgent need to stabilize and rebuild roads, other infrastructure, and buildings will increase demand for cement and other materials.

The construction industry has been urging the Commerce Department and the Southern Tier Cement Committee to reach immediate agreement on a way to allow Mexican cement into the Gulf states without the punitive 55 percent duty now in place.

Hurricanes Katrina and Rita's impact on industry is also stretching far beyond oil refineries. The storms knocked out lumber mills as well. The Gulf Coast region is fertile ground for yellow pine, which is sold as plywood, oriented strand board, and pressure-treated lumber. Prices for yellow pine and related products have already gone up 10 percent. Hurricane Katrina boosted lumber prices overnight, and the storms will continue to increase construction costs in other, subtler ways—through fuel surcharges on deliveries, for instance. Experts say prices are likely to go even higher because of increased demand for lumber when the work of rebuilding Hurricane Katrina damage begins in earnest.

On the brighter side, the buyers' market for labor is expected to continue into next year. June's 5 percent unemployment rate overstates the tightness in the labor market because labor-force growth has been unusually low recently. The missing workers are partly due to measurement error and partly due to the usual withdrawal from the labor force when jobs are hard to find. Monthly job gains are expected to rise slightly over the next year from the 180,000 during the spring, without any further decline in the unemployment rate. Rather, the unemployment rate is more likely to rise in the next few months. A stable unemployment rate requires about 60,000 people to reenter the labor force each month. Experience in similar economic conditions in the late 1990s suggests that this is likely.

> **Help Desk—**The *Engineering News Record* publishes detailed quarterly cost studies that track average prices for a wide variety of materials and labor classifications in major cities across the country. You can access summaries of the studies at the magazine's Web site at www.enr.com.

Doing Business With FEMA During Disaster Recovery

Hurricanes Katrina and Rita caused massive destruction and damage that will require a multitude of services and products during the recovery process. The services of independent contractors are usually acquired through sealed bidding or negotiations; however, the Federal Emergency Management Agency (FEMA) accepts capability statements and informational packages. The following information should be included:

- Company name
- Business address
- Contact information
- Type of service or product offered
- Type of equipment

- Number of workers being provided
- Cost for service or product
- Whether the company is volunteering services

FEMA also procures goods and services through the General Service Administration's Federal Supply Schedule (information available at www.gsa.gov/regions.htm) and identifies qualified small businesses through the U.S. Small Business Administration's Pro-net. Companies can register with Pro-Net on the SBA's Web site (www.sba.gov).

In addition, state and local governments make purchases for disaster recovery services and products. Contractors should check the emergency management or other appropriate Web sites of the affected states for information.

Help Desk—For more information about doing business with FEMA, visit www.fema.gov/ofm or call the FEMA Acquisitions Office at (202) 646-4006.

Legislative Issues and Developments

Transportation Act

In July, Congress passed the Safe, Accountable, Flexible and Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), a measure that will provide more than $286 billion in funding for new highways, roads, airports, bridges, transit facilities, and other transportation-related projects.

SAFETEA-LU reauthorizes federal aid for highways, mass transit, safety, and research programs through fiscal year 2009. The bill provides more than $50 billion for transit programs and $6 billion for transportation safety and contains a $15 billion highway bond plan.

The legislation comes nearly two years after SAFETEA-LU's predecessor, TEA-21, expired in 2003. In the interim, Congress approved 12 extensions to ensure that states continued to receive funding.

Energy Bill

Congress also voted in July to pass comprehensive energy legislation.

The legislation touches nearly every sector of the energy industry, expanding oil and gas production and creating the first inventory of U.S. offshore oil and gas resources. Additionally, the bill provides tax incentives for renewable energy, nuclear power, and coal production; requires utilities to follow nationwide electric reliability rules; and provides incentives for energy efficiency and conservation measures.

However, the final bill did not address a number of controversial items, including a provision that would have shielded manufacturers of the controversial gasoline additive methyl tertiary butyl ether (MTBE) from most product lawsuits associated with groundwater contamination, and the issue of drilling in the Arctic National Wildlife Refuge (ANWR) in Alaska.

Republican leaders intend to pursue the ANWR proposal through the budget "reconciliation" process. Unlike most bills in the Senate, the budget measure cannot be filibustered and only needs a simple majority for passage.

Youth Employment Laws

In July, the U.S. Department of Labor (DOL) unveiled a new national outreach campaign to increase awareness of the construction industry's youth employment laws.

The Youth Working in Construction Campaign is part of the agency's ongoing YouthRules! initiative, a program launched by the DOL in 2002 to highlight federal and state rules concerning young workers and to educate parents, teens, employers, and educators about the types of jobs teens can hold and the number of hours they can work.

As part of the campaign, the DOL is offering an electronic seminar presentation that describes prohibited equipment and activities and uses video clips depicting real-life examples of safe work practices. Additionally, the presentation discusses regulations implemented last year that expanded protections for young workers.

Help Desk—To order a CD-ROM copy of the *Youth Working in Construction* video, visit the DOL's Wage and Hour Division Web site at www.wagehour.dol.gov. For more information about the jobs youths may perform and the number of hours they may work, contact the DOL at (866) 4USWAGE.

Current Accounting Issues and Developments

Accounting for Contracts

Statement of Position (SOP) 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*, sets forth recommendations on accounting for construction-type and certain production-type contracts in all industries. In addition, the AICPA's Audit and Accounting Guide *Construction Contractors* (the Guide) presents recommendations of the AICPA Construction Contractors Guide Committee on, and descriptions of, financial accounting and reporting principles and practice for construction contractors. In accounting for contracts, the basic accounting policy decision is the choice between the two generally accepted methods: the percentage-of-completion method, including units of delivery, and the completed-contract method. The Guide's recommendations on basic accounting policy are set forth in the sections "Percentage-of-Completion Method" and "Completed-Contract Method," which identify the circumstances appropriate to the methods, the basis of applying the methods, and the reasons for the recommendations. The recommendations apply to accounting for individual contracts and to accounting for other profit centers in accordance with the recommendations in the section on "Determining the Profit Center." As a result of evaluating individual contracts and profit centers, a contractor should be able to establish a basic policy that should be followed in accounting for most of his or her contracts. In accordance with the requirements of Accounting Principles Board (APB) Opinion No. 22, *Disclosure of Accounting Policies*, a contractor should disclose in the note to the financial statements on accounting policies the method or methods of determining earned revenue and the cost of earned revenue, including the policies relating to combining and segmenting, if applicable.

> **Help Desk**—AICPA Audit and Accounting Guide *Construction Contractors* (product no. 012585kk), with conforming changes as of May 1, 2005, has been updated to reflect the issuance of recently issued authoritative pronouncements. The Guide is available through the AICPA's reSOURCE Online and reSOURCE CD-ROM products, as well as through a loose-leaf subscription service. Paperback editions of Audit and Accounting Guides can be purchased as well. Subscriptions to AICPA reSOURCE, subscriptions to the loose-leaf service, and paperback copies of the Guide may be obtained by calling the AICPA Service Operations Center at (888) 777-7077, by faxing a request to (800) 362-5066, or by going online at www.cpa2biz.com.

Job Performance

When projects are not completed on time, it is difficult for contractors to be profitable. Some contracts may even require that the contractor pay penalties if the job is not completed by a specified date. Jobs that are significantly behind their established timetable may require additional attention to determine that the original estimates of gross profit have not deteriorated (profit fade) and that the job has not incurred a loss (which should be recognized immediately).

For contractors that are experiencing layoffs and increased turnover, it may require some time to find a competent replacement for key operational employees who leave the company before the job is completed. The contractor may be forced to use less-experienced personnel in certain positions, including management, and that lack of experience can result in the job taking longer to complete and costing more than originally anticipated.

A disruption in the supply of key materials can also affect the ability of the contractor to complete the project on time. During the past year, most construction materials were in adequate supply. However, the events of recent years have shown that an unexpected or continuing surge in demand for materials can quickly outpace supply and create shortages and delays. And cleaning up after Hurricanes Katrina and Rita could deplete some construction suppliers over the next year. Builders working far away from the Gulf Coast are likely to experience shortages, lagging deliveries, and higher prices. In addition, the lead time required for specifically fabricated items may affect the contractor's ability to deliver the project on time.

Job Status Indicators

Keeping tabs on how jobs are progressing is crucial to a contractor's profitability. Presented here are four indicators (projected cost variance, over/under billings, cash flow, and scope change effectiveness index) that, when taken together, can reliably determine how a job is doing by integrating all of the financial variables that reveal and predict a job's performance. While these indicators do not indicate why a job is doing better or worse than planned, they will alert you to jobs in need of tighter management and more attention. However, before examining these indicators, it's important to establish consistent definitions for four common terms.

Original Budget

The original budget (OB) is the cost budget associated with a job at the time the job is awarded, or as modified by the job's project manager before job inception. The OB must be compatible in form and function with the way incurred costs are recorded. Once established, the OB is not changed for any reason. It is broken down in accordance with the job's work breakdown structure.

Revised Budget

The revised budget (RB) reflects the OB plus the cost budget associated with customer-requested scope changes. This is the most important budget pertaining to a particular job because it is the reference point. The scope changes referred to here are changes in work for which the contractor will be paid.

There are several common situations that should not affect the RB:

- Savings or overruns due to subcontractor or vendor buyouts;
- Costs due to unexpected weather conditions or for any other occurrence, when such occurrences are not to be paid for by the customer; and
- Forced work orders, unless payment for the work is likely.

One situation, however, that does affect the RB is a rearrangement of work (ROW)—a redistribution of resources to accomplish the original scope of work using a different methodology. To ensure that ROW transactions do not affect a job's revised budgeted margins, the sum of the rearrangements equals zero at the job (top) level, regardless of the changes made further down in the work breakdown structure. A contingency cost code is frequently used in conjunction with ROW transactions to ensure that they net to zero.

There is often confusion about when the RB should be amended. By examining the steps in the scope change process, it is clear when the update should occur.

Step 1. The customer requests a proposal for a scope change, which the contractor prepares and submits to the customer. At this point, the RB is not affected; however, the proposal is tracked so the contractor can identify the value, number, and content of outstanding proposals for any given job at any given time.

Step 2. The customer either rejects the proposal or accepts it, perhaps even with modifications, and the contractor receives a Notice to Proceed. At this point the customer has not formally signed the scope change (in reality, the signed scope change may not follow for weeks or even months), but the contractor starts work anyway, thinking, "I don't have a signed scope change, so I'm not going to update the RB, even though I am proceeding with the work and incurring the associated costs."

This is very dangerous. The job will always appear to be over-budget because the RB is too low. The RB should be updated at the time the Notice to Proceed is received. At the same time, your system should track unsigned scope changes that are affecting the RB so you can effectively monitor and manage those items. If the arrival of the Notice to Proceed alerts contractors to update the RB, it also frequently prompts contractors to ask, "How do I best record the change in contract amount associated with the Notice to Proceed transaction?" There are three commonly used methods.

1. Don't record the contract amount change at all until the scope change is signed.
2. Record the contract amount change without any margin until the scope change is signed.
3. Record the fully margined contract amount associated with the scope change when the Notice to Proceed is received.

When using the four indicators discussed later, it is important to properly record the fully margined scope change and to keep the RB properly updated. The best way to do this is have three contract amount categories: original contract amount (OCA), revised contract amount (RCA), and forecast contract amount (FCA). The OCA corresponds to the OB. The RCA comprises the OCA plus additional contract amounts associated with all approved (signed) scope changes. The FCA comprises the RCA plus all unsigned scope changes/contract modifications with authorized Notices to Proceed. The difference between the FCA and the RCA (that is, unsigned scope changes for which there is a Notice to Proceed) should be continually managed so it will be reduced to zero before the job is completed.

Forecasts

Forecasts are a project manager's best projection of hours, quantities, and costs at job completion, down to the most detailed level of the work breakdown structure. (Forecasts are normally furnished on a monthly basis.) In developing these forecasts, project managers integrate all available job information, as well as all scope changes for which a Notice to Proceed was received. Forecasts, when used, are typically the single most important piece of information in a contractor's management information system.

Estimated Cost at Completion

Estimated cost at completion (ECAC) is a function of integrating budget and forecast information, as well as information contained in your information system, such as committed costs, incurred costs, and productivity (management information system data + forecast information). While it means nothing by itself, the ECAC is the basis for two of the four indicators: projected cost variance and over/underbillings.

The Four Indicators

1. Projected Cost Variance (PCV). The formula is PCV = ECAC – RB. The PCV is the single most important indicator of job progress. On the first day of a job, this indicator should be zero. As a job progresses, this indicator becomes either positive (adverse, over budget) or negative (favorable, under budget). In one number, the PCV captures everything about how a job is progressing operationally (as opposed to financially) and easily indicates operational problems from the job level all the way down the work breakdown structure.

This one indicator shows how the job costs will vary from the RB at job completion if action is not taken. The earlier in the job cycle that adverse variances are determined, the better the chances that appropriate action can remedy the situation. The PCV is normally calculated monthly and is formulated as of the end of the job, not as of the date that the calculation is made. Projecting to the end of the job is preferable because many costs not related to productivity (for example, committed costs and material costs) are much easier to evaluate as they relate to the total job at completion, rather than to fractional points in the job cycle.

2. Over/Underbillings (O/UB). The formula is O/UB = Revenue – Billings. Unlike other industries, overbillings and underbillings are common in the construction industry. Contractors can capitalize on this to improve liquidity and to compensate for customer-withheld retention. It is common for lump-sum and unit-price work to "front-end load" billing schedules, so the billing-to-costs ratio is larger for work performed at the beginning of the job than for work performed later in the job cycle. In a practice called "unbalancing" (common in unit-price work), items with the potential for quantity overruns are priced with higher margins than items with little or no chance of overruns (or possible elimination from the contract). These practices should normally result in an overbilled position for a job, with overbillings typically largest in the early to midportion of the job cycle.

Considering these factors, underbillings in a job should be a major warning to financial managers. Underbillings can and usually do occur where many (or even all) other financial indicators, including PCV, are favorable. As such, underbillings can be a telltale sign that everything is not copasetic. Underbillings usually occur because the operations staff has either (1) not updated the forecasts or (2) forecasted too low, resulting in an ECAC that is skewed too low and a percent complete that is skewed too high.

Since the percent complete is too high, the billings resulting from that figure are also too high. The customer cannot be billed by those numbers, which leads to underbillings. In reality, the amount billed is probably consistent with the work that has been done, but the ECAC is not correct. An incorrect ECAC is a more serious problem than underbilling, per se; the corrected ECAC will reduce the job's revenue and associated gross margin. Due to these factors, underbillings are frequently a sign of serious problems.

The O/UB indicator can sometimes be more important than PCV. In addition to possibly indicating an incorrect ECAC, O/UB relates to nonquantifiable factors, such as an unhappy customer, work falling behind schedule, or work of poor quality that must be redone, as well as just the normal lethargy project managers exhibit in submitting requisitions for payment. So, job underbillings should be investigated even if all other job metrics are favorable.

3. Cash Flow (CF). CF is the ultimate reality check. There are numerous examples where PCV and O/UB were favorable, but the job was still a bust simply because the customer cannot (or will not) pay the bills. The first two indicators are based on internal factors. CF, on the other hand, is a measure of customer/client/supplier relationships. As such, it should be carefully and frequently monitored.

4. Scope Change Effectiveness Index (SCEI). The formula is SCEI = (FCA – RB)/FCA (OCA – OB)/OCA. SCEI is a ratio of revised contract budgeted margin to original contract budgeted margin. It indicates that both the contract amount and contract cost portion of the scope changes are properly processed. Unless special arrangements are made with the customer regarding scope change margin percentages (after the job has been awarded), this indicator is normally greater than one. If the SCEI is less than one, the scope changes are probably not being recorded correctly in the management information system.

This indicator has nothing to do with job production, variances, or relationships with the customer. It simply determines if the scope changes are being properly entered into the system. The purpose of this indicator is to prevent inadvertent omission of the revenue portion of a scope change when the cost portion is processed. This is a frequent problem in the construction industry, resulting in what is commonly referred to as scope creep.

Guidance Related to Natural Disasters

In September 2005, following the destruction caused by Hurricane Katrina, the AICPA issued Technical Practice Aid (TPA) section 5400.05, "Accounting and Disclosures Guidance for Losses from Natural Disasters—Nongovernmental Entities," to address some of the questions that arose in the aftermath of this disaster. This TPA identifies accounting literature, which gives guidance on the following accounting issues that may arise in accounting for losses from natural disasters:

- Classifying, in the statement of operations, losses from a natural disaster of a type that is reasonably expected to recur
- Recognizing an asset impairment loss related to a natural disaster
- Recognizing a liability for nonimpairment losses and costs related to a natural disaster
- Accounting for insurance recoveries to cover losses sustained in a natural disaster, and additional considerations related to business interruption insurance recoveries
- Fulfilling required disclosures regarding the impact of a natural disaster

Help Desk—This TPA can be accessed at www.aicpa.org/download/acctstd/Natural_disaster_TPA_5400.05.pdf.

Variable Interest Entities

Financial Accounting Standards Board (FASB) Interpretation No. 46, *Consolidation of Variable Interest Entities*, issued in January 2003, affected the reporting of a large number of companies associated with special purpose entities (SPEs, entities established for a specific purpose). The concepts in FASB Interpretation No. 46 were very complex and far reaching. In December 2003, the FASB issued Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities* (FASB Interpretation No. 46(R)), which revised and clarified certain of the concepts in the original document.

FASB Interpretation No. 46(R) interprets Accounting Research Bulletin (ARB) No. 51, *Consolidated Financial Statements*, which, for approximately half a century, was the principal authoritative literature governing when an investor should consolidate an investee. ARB No. 51 concluded that consolidated financial statements are "usually necessary for fair presentation when one of the companies in the group directly or indirectly has a controlling interest in the other companies." FASB Statement No. 94, *Consolidation of All Majority-Owned Subsidiaries*, issued in October

1987, amended ARB No. 51 to remove one of the three exceptions provided in ARB No. 51 that allowed an investor to avoid consolidating a majority-owned investee. ARB No. 51, with certain exceptions, required consolidation of an investee if an investor had a controlling financial interest in the investee. In general, a controlling financial interest was exhibited by an ownership interest of more than 50 percent of the investee's voting stock.

In 1990, to address the consolidation of SPEs for which voting rights were not considered substantive, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 90-15, "Impact of Nonsubstantive Lessors, Residual Value Guarantees, and Other Provisions in Leasing Transactions." Issue 90-15 required a lessee to consolidate an SPE-lessor if all the following conditions were met:

- Substantially all the SPE's activities involved assets to be leased to the lessee.
- The lessee was exposed to the substantive risks and was entitled to substantially all the residual rewards of the leased assets and the SPE's financing arrangements.
- The SPE's owners had not made a substantive residual equity investment that would be at risk throughout the term of the lease.

The consolidation of most SPEs was avoided based on the third condition not being met (in other words, the SPE's owners had made a substantive residual equity investment). As practice evolved, a "substantive residual equity investment" came to mean an amount equal to 3 percent of the fair value of the SPE's assets.

Then the Enron scandal exploded. Enron had set up an elaborate array of entities to shift debt away from the company's books, while absorbing substantially all the risk associated with that debt either through guarantees of the debt or the SPE's assets. The extent of those guarantees came as a surprise to many investors.

In response, the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including*

Indirect Guarantees of Indebtedness of Others, which requires a guarantor to recognize the fair value of its guarantee obligations as a liability and provide certain disclosures about the nature of guarantees it has provided, and FASB Interpretation No. 46 (which subsequently was replaced by FASB Interpretation No. 46(R)).

Importance in Construction

FASB Interpretation No. 46(R) may have a significant impact on construction companies. Some of the more common arrangements that may be affected by FASB Interpretation No. 46(R) include the following:

- Real estate developers frequently form separate legal entities to own property to be developed. The purpose of the separate legal entity is to isolate the developer's other assets from the project to be developed in the event the project is unsuccessful.
- The owners of closely held construction contractors may establish separate legal entities to acquire equipment that is then leased to the contractor. Often, such entities are created for estate-planning purposes.
- Contractors may also form joint ventures to develop a project. Joint venture partners could include another party with unique capabilities in some facet of the project. In some circumstances, such as when the bid documents require that a prime contractor perform more than half of the work, two or more contractors may form a joint venture to become the prime contractor, to meet the contractual requirements.

Each of these separate legal entities may meet the criteria in FASB Interpretation No. 46(R) to be a variable interest entity (VIE), which necessitates a careful consideration of the Interpretation's provisions.

It is common in the construction industry for a contractor to report its interests in a joint venture by consolidating its proportionate interest in the venture. The AICPA Accounting and Audit

Guide *Audits of Construction Contractors* (the Guide), issued in 1981, provided guidance on how to account for joint ventures. In addition, EITF Issue No. 00-1, "Investor Balance Sheet and Income Statement Display under the Equity Method for Investments in Certain Partnerships and Other Ventures," recognized the specialized, longstanding practice that had developed in the construction industry by permitting companies to continue consolidating their proportionate interests in investees in the construction industry. However, after the issuance of FASB Interpretation No. 46(R), companies can no longer take it for granted that pro-rata consolidation is appropriate.

Variable Interest Entities

FASB Interpretation No. 46(R) introduced a number of new concepts into the literature. FASB Interpretation No. 46(R) does not define a VIE, but it does describe the characteristics of one. As described by FASB Interpretation No. 46(R), a VIE is an entity for which a controlling financial interest is provided through ownership of interests other than voting stock. Rather, a controlling financial interest arises out of the economics—a holder of variable interests that is either exposed to a majority of the VIE's expected losses or is entitled to a majority of its expected residual rewards is the party with a controlling financial interest, even if none of the interests is in voting common stock.

FASB Interpretation No. 46(R) is complex. Judgment is called for in analyzing entities with which a company has business arrangements to determine if those entities are VIEs and, if so, whether consolidation is required.

In applying FASB Interpretation No. 46(R), an investor and its related parties (which include the investor's officers, employees, and directors; parties that have a "close business relationship" with the investor; and parties that cannot sell, pledge, or exchange their interests in an entity without the investor's prior approval) must first determine whether they have a variable interest.

Variable interests include, but are not limited to, equity investments; debt instruments; guarantees; beneficial interests; service contracts; leases, including guarantees or fixed-price purchase options; forward contracts; and options. In essence, almost any asset, liability, or off-balance-sheet contractual arrangement between parties could qualify as a variable interest. However, a variable interest is distinguished from other assets, liabilities, and off-balance-sheet contractual arrangements by virtue of the fact that a variable interest under FASB Interpretation No. 46(R) is one that absorbs the variability in the entity's return. For example, a party that guarantees the value of real estate held by a developer (or guarantees the developer's bank borrowings used to finance the real estate) has a variable interest because, through the guarantee, the guarantor will absorb any negative variability in returns on the real estate that result in the value of the real estate declining.

If it is decided that a party has a variable interest and it is not immediately clear that the interest is so minor it could not possibly result in that party being required to consolidate the entity in which the variable interest is held, that party must determine whether the entity is a VIE. Paragraph 5 of FASB Interpretation No. 46(R) indicates that an entity is a VIE if any one of the following criteria is met:

1. The total equity investment at risk is insufficient to permit the entity to finance its activities without additional subordinated financial support provided by any parties, including equity holders. For this purpose, the total equity investment at risk:
    a. Includes only equity investments in the entity that participate significantly in profits and losses, even if those investments do not carry voting rights.
    b. Does not include equity interests that the entity issued in exchange for subordinated interests in other variable interest entities.
    c. Does not include amounts provided to the equity investor directly or indirectly by the entity or by other parties involved with the entity (for example, by fees, charitable contributions, or other payments), unless the provider is a parent, subsidiary, or affiliate of the in-

vestor that is required to be included in the same set of consolidated financial statements as the investor.

d. Does not include amounts financed for the equity investor (for example, by loans or guarantees of loans) directly by the entity or by other parties involved with the entity, unless that party is a parent, subsidiary, or affiliate of the investor that is required to be included in the same set of consolidated financial statements as the investor.

2. As a group the holders of the equity investment at risk lack any one of the following three characteristics of a controlling financial interest:

   a. The direct or indirect ability through voting rights or similar rights to make decisions about an entity's activities that have a significant effect on the success of the entity. The investors do not have that ability through voting rights or similar rights if no owners hold voting rights or similar rights (such as those of a common shareholder in a corporation or a general partner in a partnership).

   b. The obligation to absorb the expected losses of the entity. The investor or investors do not have that obligation if they are directly or indirectly protected from the expected losses or are guaranteed a return by the entity itself or by other parties involved with the entity.

   c. The right to receive the expected residual returns of the entity. The investors do not have that right if their return is capped by the entity's governing documents or arrangements with other variable interest holders or the entity.

3. The equity investors as a group also are considered to lack characteristic 2(a) if (*a*) the voting rights of some investors are not proportional to their obligations to absorb the expected losses of the entity, their rights to receive the expected residual returns of the entity, or both and (*b*) substantially all the entity's activities (for example, provid-

ing financing or buying assets) either involve or are conducted on behalf of an investor that has disproportionately few voting rights. For purposes of applying this requirement, enterprises shall consider each party's obligations to absorb expected losses and rights to receive expected residual returns related to all that party's interests in the entity and not only to its equity investment at risk.

In some situations, it will be easy to determine if any of these conditions is met. In most circumstances, however, that will not be the case.

The requirements of FASB Interpretation No. 46 were originally to be applied immediately to all VIEs created after January 31, 2003, and no later than the beginning of the period beginning after June 15, 2003 (July 1, 2003, for a calendar-year company that issues quarterly financial information that purports to comply with generally accepted accounting principles), to VIEs created before February 1, 2003. Because of concerns raised by constituents over the operationality of FASB Interpretation No. 46, the FASB delayed its effective date in October 2003 for those entities created before February 1, 2003. FASB Interpretation No. 46(R) modified the effective date provisions in FASB Interpretation No. 46 as follows.

For public entities that are small business issuers, FASB Interpretation No. 46(R) must be applied to all VIEs no later than the end of the first reporting period that ends after December 15, 2004 (the year ending December 31, 2004, for calendar-year companies), including those VIEs to which FASB Interpretation No. 46 had already been applied (for example, those created after January, 31, 2003).

For public entities that are not small business issuers, FASB Interpretation No. 46(R) must be applied to all VIEs no later than the end of the first reporting period that ends after March 15, 2004 (the quarter ending March 31, 2004, for calendar-year companies), including those VIEs to which FASB Interpretation No. 46 had already been applied.

A nonpublic entity is required to apply FASB Interpretation No. 46(R) to all VIEs in which it holds variable interests by the beginning of the first reporting period beginning after December 2004, (January 1, 2005, for a calendar-year company). A nonpublic entity is required to apply FASB Interpretation No. 46(R) immediately to VIEs created after December 31, 2003.

In addition, FASB Interpretation No. 46(R) required public companies to apply either FASB Interpretation No. 46 or FASB Interpretation No. 46(R) to entities that would have previously been evaluated under the accounting literature as SPEs by the end of the first reporting period ending after December 15, 2003.

FASB Interpretation No. 46(R) expanded the consolidation requirements by requiring existing unconsolidated VIEs to be consolidated with their primary beneficiaries if the entities do not effectively disperse risk among the investing parties. As such, VIEs that effectively disperse risks will not be consolidated unless a single party holds an interest or combination of interests that effectively recombines risks that were previously dispersed.

Expected Losses

If an entity is a VIE, the primary beneficiary entity and its related parties need to determine if they—or another investor—are exposed to a majority of the entity's "expected losses." If so, the party exposed to a majority of expected losses is required to consolidate the VIE. That party is referred to in FASB Interpretation No. 46(R) as the VIE's "primary beneficiary."

If no investor is exposed to a majority of "expected losses," the enterprise and its related parties would need to determine if they are entitled to a majority of the entity's residual rewards. If so, the entity entitled to major rewards would be required to consolidate the entity.

If the enterprise is not required to consolidate the VIE, it would account for its investment in the entity using whatever method is appropriate under other accounting literature. (For equity investments, appropriate accounting methods may include using the equity or cost method, or recording at fair value if the investment has a readily determinable fair value and the enterprise and its related parties do not exercise significant influence over the entity's activities. If the variable interest is based on guarantees or other contractual arrangements, disclosure is required.)

Where significant investments do not result in consolidation, disclosure should include the nature of the investment, the exposure to losses, the purpose and size of the investment, and activities with the VIE.

In determining whether an entity's equity is sufficient to cover "expected losses," it is important to understand that "expected losses" do not only arise in situations where an investor loses its stated invested principal.

As used in FASB Interpretation No. 46(R), "expected losses" can arise when an investment underperforms expectations. For example, if the property held by a real estate limited partnership is expected to appreciate by 10 percent per year for the five-year life of the partnership, the partnership would incur "expected losses" for any possible scenario where appreciation could be less than 10 percent per year.

So, if it were possible that the property could appreciate by 6 percent annually, the entity would need to have sufficient equity to "absorb" the opportunity cost related to the 4 percent difference between the expected return and the possible return.

Control of Entities' Activities

Fees paid to any of the investors, for any reason, must be deducted from the equity invested when considering whether the equity is sufficient to absorb losses and whether the equity investors, as a group, control the activities of an entity.

For example, if a developer is the general partner in a limited partnership and receives a fee at inception in excess of its investment, the limited partnership entity would be deemed to be a VIE. This is because FASB Interpretation No. 46(R) requires investors with equity in the entity to be able to control its activities to not be considered a VIE.

In this example, the general partner—who is the only party with the right to control the ongoing activities of the partnership, the other partners being passive investors—does not have equity in the entity since the fees it received at inception exceeded its investment. That conclusion could require a limited partner to consolidate if the limited partner owns more than 50 percent of the limited partnership interests even though that limited partner's risks are limited to its accumulated and undistributed investment.

Conclusion

As a result of FASB Interpretation No. 46, you should review your company's participations in VIEs to evaluate whether these entities should be consolidated. In many cases, real estate partnerships, LLCs, and other entities guaranteed by the operating entity (for example, the contractor) or its owner will have to be consolidated. To ensure compliance, review the full provisions of FASB Interpretation No. 46 when accounting for your company's partnerships and alliances.

FASB Staff Positions. The FASB has issued and proposed several FASB Staff Positions (FSPs) related to Interpretation No. 46 that may be of interest to construction contractors. FSPs are available on the FASB Web site at www.fasb.org.

Asset Retirement Obligations

Many construction contractors have mining operations or asphalt/concrete plants that have significant dismantling and restoration costs associated with retirement of the assets. FASB Statement No. 143, *Accounting for Asset Retirement Obligations*, addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development, and/or the normal operation of a long-lived asset, except for certain obligations of lessees. As used in FASB Statement No. 143, a legal obligation is an obligation that a party is required to settle as a result of an existing or enacted law, statute, ordinance, or written or oral contract or by legal construction of a contract under the doctrine of a promissory estoppel. FASB Statement No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. If a reasonable estimate of fair value cannot be made in the period the asset retirement obligation is incurred, the liability shall be recognized when a reasonable estimate of fair value can be made. Upon initial recognition of a liability for an asset retirement obligation, an entity should capitalize an asset retirement cost by increasing the carrying amount of the related long-lived asset by the same amount as the liability. An entity should subsequently allocate that asset retirement cost to expense using a systematic and rational method over its useful life.

Recent Interpretation

In March 2005, the FASB issued FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations—an interpretation of FASB Statement No. 143*. This Interpretation clarifies that the term *conditional asset retirement obligation* as used in FASB Statement No. 143 refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and/or method of settlement. Thus, the timing and/or method of settlement may be conditional on a future event. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The fair value of a liability for the conditional asset retirement obligation should be recognized when incurred—generally upon acquisition, construction, or development and/or through the normal operation of the asset. Uncertainty about the timing and/or method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. FASB Statement No. 143 acknowledges that in some cases, sufficient information may not be available to reasonably estimate the fair value of an asset retirement obligation. This Interpretation also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation.

Diverse accounting practices have developed with respect to the timing of liability recognition for legal obligations associated with the retirement of a tangible long-lived asset when the timing and/or method of settlement of the obligation are conditional on a future event. For example, some entities recognize the fair value of the obligation before the retirement of the asset with the uncertainty about the timing and/or method of settlement incorporated into the liability's fair value. Other entities recognize the fair value of the obligation only when it is probable the asset will be retired as of a specified date using a specified method or when the asset is actually retired. This Interpretation clarifies that an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation when incurred if the liability's fair value can be reasonably estimated. Questions also arose about when sufficient information may not be available to make a reasonable estimate of the fair value of an asset retirement obligation. This Interpretation clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation.

This Interpretation is effective no later than the end of fiscal years ending after December 15, 2005 (December 31, 2005, for calendar-year enterprises). Retrospective application for interim financial information is permitted but is not required. Early adoption of this Interpretation is encouraged.

Accounting for Weather Derivatives

Weather derivative contracts (that is, contracts indexed to climatic or geological variables) are relatively new; however, their market presence is rapidly growing. The construction industry is one of the market areas where the potential use of weather derivatives would likely expand. EITF Issue No. 99-2, "Accounting for

Weather Derivatives," prescribes the accounting treatment for weather derivatives. The increased use of weather derivative contracts raises questions about whether such contracts should be accounted for under accrual accounting, under settlement accounting, under insurance accounting, marked to fair value through earnings at each reporting date, or under some other method. Most weather derivative contracts contain a terminal settlement provision based on a cumulative index (including the example degree-day swap and option contracts described in this Issue). Another issue to consider is whether the accounting for weather derivatives should vary based on the type of contract. Practice is diverse.

In accordance with FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, contracts that are not exchange traded are not subject to the requirements of that Statement if settlement is based on a climatic or geological variable or on some other physical variable. Any derivative based on a physical variable that eventually becomes exchange traded will automatically become subject to the requirements of FASB Statement No. 133. EITF Issue No. 99-2 does not apply to contracts written by insurance companies that entitle the holder to be compensated only if, as a result of an insurable event, the holder incurs a liability or there is an adverse change in the value of a specific asset or liability for which the holder is at risk.

This EITF addresses the following issues.

Issue 1. How should an entity account for a non-exchange-traded swap-based (or two-directional risk) weather derivative?

Issue 2. How should an entity account for a purchased non-exchange-traded option-based (or one-directional risk) weather derivative?

Issue 3. How should an entity account for a written non-exchange-traded option-based weather derivative?

EITF Issue No. 99-2 explains that an entity that enters into a non-exchange-traded forward-based weather derivative in connection with nontrading activities should account for the contract by applying an "intrinsic value method." The intrinsic value method computes an amount based on the difference between the expected results from an up-front allocation of the cumulative strike and the actual results during a period, multiplied by the contract price (for example, dollars per heating degree day). The intrinsic value method first requires that the reporting entity allocate the cumulative strike amount to individual periods within the contract term. That allocation should reflect reasonable expectations at the beginning of the contract term of normal or expected experience under the contract. That allocation should be based on data from external statistical sources, such as the National Weather Service. The "intrinsic value," or "intrinsic value measure," of the contract at interim dates would then be calculated based on cumulative differences between actual experience and the allocation through that date. The initial allocation of the cumulative strike amount should not be adjusted over the term of the contract to reflect actual results.

EITF Issue No. 99-2 further states that an entity that purchases a non-exchange-traded option-based weather derivative in connection with nontrading activities should amortize to expense the premium paid (or due) and apply the intrinsic value method described above to measure the contract at each interim balance sheet date. The premium asset should be amortized in a rational and systematic manner.

Finally, EITF Issue No. 99-2 explains that all entities that sell or write a non-exchange-traded option-based weather derivative should initially recognize the premium as a liability and recognize any subsequent changes in fair value currently in earnings (the premium would not be amortized).

Exchanges of Nonmonetary Assets

In December 2004, the FASB issued FASB Statement No. 153, *Exchanges of Nonmonetary Assets—an amendment of APB Opinion No. 29*. The guidance in APB Opinion No. 29, *Accounting for Nonmonetary Transactions*, was based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in that Opinion, however, included certain exceptions to that principle. Opinion No. 29 provided an exception to the basic measurement principle (fair value) for exchanges of similar productive assets. That exception required that some nonmonetary exchanges, although commercially substantive, be recorded on a carryover basis.

FASB Statement No. 153 amends Opinion No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. According to FASB Statement No. 153, a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange.

Impact on Contractors

Because of the change in the accounting for exchanges of nonmonetary assets, construction contractors are likely to see an increase in the historical cost of equipment over time. This increase in historical cost of equipment will result in higher depreciation expense, which may reduce margins on contracts. Likewise, higher depreciation may justify higher revenue on reimbursable cost type contracts. In addition, contractors must consider the immediate income effect for gain or loss recognition on any equipment transactions.

FASB Statement No. 153 is effective for nonmonetary exchanges occurring in fiscal periods beginning after June 15, 2005.

Recent Accounting Pronouncements and Related Guidance

Presented below is a list of recently issued accounting pronouncements and other guidance issued since last fall. For information on accounting standards issued subsequent to the publication of this Alert, please refer to the AICPA Web site at www.aicpa.org and the FASB Web site at www.fasb.org. You may also look for announcements of newly issued standards in the *CPA Letter* and the *Journal of Accountancy*.

FASB Statement No. 152 (December 2004)	*Accounting for Real Estate Time-Sharing Transactions —an amendment of FASB Statements No. 66 and 67* This Statement amends FASB Statement No. 66, *Accounting for Sales of Real Estate*, to reference the financial accounting and reporting guidance for real estate time-sharing transactions that is provided in AICPA SOP 04-2, *Accounting for Real Estate Time-Sharing Transactions*. This Statement also amends FASB Statement No. 67, *Accounting for Costs and Initial Rental Operations of Real Estate Projects*, to state that the guidance for (1) incidental operations and (2) costs incurred to sell real estate projects does not apply to real estate time-sharing transactions. The accounting for those operations and costs is subject to the guidance in SOP 04-2.
FASB Statement No. 153 (December 2004)	*Exchanges of Nonmonetary Assets—an amendment of APB Opinion No. 29* This Statement amends APB Opinion 29, *Accounting for Nonmonetary Transactions*, to eliminate the exception for nonmonetary exchanges of similar productive assets, and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. Please refer to the "Exchanges of Nonmonetary Assets" section of this Alert for a brief description of this Statement.
FASB Statement No. 123(R) (December 2004)	*Share-Based Payment* This Statement is a revision of FASB Statement No. 123, *Accounting for Stock-Based Compensation*; it supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and its related implementation guidance. This Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. It establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments.

FASB Statement No. 154 (May 2005)	*Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3* This Statement replaces APB Opinion No. 20, *Accounting Changes*, and FASB Statement No. 3, *Reporting Accounting Changes in Interim Financial Statements*, and changes the requirements for the accounting for and reporting of a change in accounting principle. This Statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions.
FASB Interpretation No. 47 (March 2005)	*Accounting for Conditional Asset Retirement Obligations—an interpretation of FASB Statement No. 143* This Interpretation clarifies that *conditional asset retirement obligations* describes a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may not be under the entity's control. Please refer to the "Asset Retirement Obligations" section of this Alert for a brief description of this Interpretation.
FASB EITF Issues (Various dates)	Go to www.fasb.org/eitf/ for a complete list of EITF Issues.
FASB Staff Positions (Various dates)	Go to www.fasb.org/fasb_staff_positions/ for a complete list of FSPs. Some of the recently issued FSPs address issues relating to FASB Statements No. 143 and No. 150, among others; and FASB Interpretation No. 46(R).
AICPA Technical Practice Aid section 1200.06-1200.15 (February 2005) (Nonauthoritative)	"Accounting by Noninsurance Enterprises for Property and Casualty Insurance Arrangements That Limit Insurance Risk"
AICPA Technical Practice Aid section 5400.05 (September 2005) (Nonauthoritative)	"Accounting and Disclosures Guidance for Losses from Natural Disasters—Nongovernmental Entities" Please refer to the "Guidance Related to Natural Disasters" section of this Alert for a brief description of this TPA.

AICPA Technical Practice Aid section 6930.09 (August 2005) (Nonauthoritative)	"Accounting and Disclosure Requirements for Single-Employer Employee Benefit Plans Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003"
AICPA Technical Practice Aid section 6930.10 (August 2005) (Nonauthoritative)	"Accounting and Disclosure Requirements for Multiemployer Employee Benefit Plans Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003"

The summaries provided above are for informational purposes only and should not be relied upon as a substitute for a complete reading of the applicable standards and other guidance. You should visit the applicable Web site for complete information. You can obtain copies of AICPA standards and other guidance by contacting the Service Operations Center at (888) 777-7077 or online at www.cpa2biz.com.

Some of the pronouncements listed above are already discussed in more detail in this Alert. Below is a brief discussion of two recently issued FSPs that that may have an impact on construction contractors.

FSP No. SOP 78-9-1, *"Interaction of AICPA Statement of Position 78-9 and EITF Issue No. 04-5"*

This FASB Staff Position, issued in July 2005, amends SOP 78-9, *Accounting for Investments in Real Estate Ventures*.

At the June 15-16, 2005, meeting, the EITF reached a consensus on EITF Issue No. 04-5, "Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights." The consensus provides a framework for addressing when a general partner, or general partners as a group, controls a limited partnership or similar entity. The EITF acknowledged that the consensus in Issue No. 04-5 conflicts with certain aspects of SOP 78-9. The EITF agreed that the assessment of whether a general partner, or the general partners as a group, controls a limited partnership should be consistent for all limited partnerships, irrespective of the industry within which the limited partnership operates. Accordingly, the EITF requested and the FASB agreed to amend the guidance in SOP 78-9 to be consistent with the consensus in Issue No. 04-5.

This FSP eliminates the concept of "important rights" in paragraph .09 of SOP 78-9 and replaces it with the concepts of "kick-out rights" and "substantive participating rights" as defined in EITF Issue No. 04-5. This FSP also amends paragraph .07 of SOP 78-9 to be consistent with revised paragraph .09. The FASB believes that the effect of the rights held by minority partners on the assessment of control, and therefore consolidation, of a general partnership should be the same as the evaluation of limited partners' rights in a limited partnership.

For general partners of all new partnerships formed and for existing partnerships for which the partnership agreements are modified, the guidance in this FSP is effective after June 29, 2005. For general partners in all other partnerships, the guidance in this FSP is effective no later than the beginning of first reporting period in fiscal years beginning after December 15, 2005, and the application of either Transition Method A or Transition Method B, described in this FSP, is permitted.

FSP No. FAS 13-1, *"Accounting for Rental Costs Incurred during a Construction Period"*

This FSP, issued in October 2005, addresses the accounting for rental costs associated with operating leases that are incurred during a construction period. This FSP does not address rental costs other than those associated with building and ground operating leases. This FSP also does not address whether a lessee that accounts for the sale or rental of real estate projects under FASB Statement No. 67, *Accounting for Costs and Initial Rental Operations of Real Estate Projects*, should capitalize rental costs associated with ground and building operating leases.

This FSP provides that rental costs associated with ground or building operating leases that are incurred during a construction period shall be recognized as rental expense. The rental costs shall be included in income from continuing operations. A lessee shall follow the guidance in FASB Statement No. 13, *Accounting* *for Leases*, and FASB Technical Bulletin No. 85-3, *Accounting for Operating Leases with Scheduled Rent Increases*, in determining how to allocate rental costs over the lease term. This guidance does not change application of the maximum guarantee test in EITF Issue No. 97-10, "The Effect of Lessee Involvement in Asset Construction."

The guidance in this FSP shall be applied to the first reporting period beginning after December 15, 2005. Early adoption is permitted for financial statements or interim financial statements that have not yet been issued. A lessee shall cease capitalizing rental costs as of the effective date of this FSP for operating lease arrangements entered into before the effective date of this FSP. Retrospective application in accordance with FASB Statement No. 154, *Accounting Changes and Error Corrections*, is permitted but not required.

On the Horizon

You should keep abreast of accounting developments and upcoming guidance that may affect your company. You should check the appropriate standard-setting Web sites (listed below) for a complete picture of all accounting projects in progress. Presented below is brief information about certain projects that are expected to result in final standards in the near future. Remember that exposure drafts are nonauthoritative and cannot be used as a basis for changing generally accepted accounting principles (GAAP).

The following table lists the various standard-setting bodies' Web sites, where information may be obtained on outstanding exposure drafts, including downloading a copy of the exposure draft. These Web sites contain much more in-depth information about proposed standards and other projects in the pipeline.

Standard-Setting Body	*Web Site*
AICPA Accounting Standards Executive Committee (AcSEC)	www.aicpa.org/members/div/acctstd/edo/index.htm
Financial Accounting Standards Board (FASB)	www.fasb.org
Governmental Accounting Standards Board (GASB)	www.gasb.org

Help Desk—The AICPA's standard-setting committees publish exposure drafts of proposed professional standards exclusively on the AICPA Web site. The AICPA will notify interested parties by e-mail about new exposure drafts. To be added to the notification list for all AICPA exposure drafts, send your e-mail address to memsat@aicpa.org. Indicate "exposure draft e-mail list" in the subject header field to help process your submission more efficiently. Include your full name, mailing address and, if known, your membership and subscriber number in the message.

Project on Revenue Recognition

Revenue usually is the largest single item in financial statements, and issues involving revenue recognition are among the most important and difficult that standard setters and accountants face. Because no comprehensive standard on revenue recognition exists, there is a significant gap between the broad conceptual guidance in the FASB's Concepts Statements and the detailed guidance in the authoritative literature. Most of the authoritative literature provides industry or transaction-specific implementation guidance, and it has been developed largely on an ad hoc basis and issued in numerous pronouncements with differing degrees of authority. Those pronouncements include APB Opinions, FASB Statements, AICPA Audit and Accounting Guides, AICPA SOPs, FASB Interpretations, EITF Issues, SEC Staff Accounting Bulletins (SABs), and the like. Each focuses on a specific practice problem and has a narrow scope, and the guidance is not always consistent across pronouncements.

The SEC sought to fill the gap in the accounting literature with SAB No. 101, *Revenue Recognition in Financial Statements*, which was issued in December 1999, and the companion document, *Revenue Recognition in Financial Statements—Frequently Asked Questions and Answers*, which was issued in October 2000. SAB No. 101 was superseded by SAB No. 104, *Revenue Recognition*, in December 2003. SAB No. 104 states that if a transaction falls within the scope of specific authoritative literature on revenue recognition, that guidance should be followed; in the absence of such guidance, the revenue recognition criteria in Concepts

Statement No. 5 (namely, that revenue should not be recognized until it is (1) *realized or realizable* and (2) *earned*), should be followed. However, SAB No. 104 is more specific, stating additional requirements for meeting those criteria, and reflects the SEC staff's view that the four basic criteria for revenue recognition in AICPA SOP 97-2, *Software Revenue Recognition*, should be a foundation for all basic revenue recognition principles. Those criteria are:

- Persuasive evidence of an arrangement exists.
- Delivery has occurred.
- The vendor's fee is fixed or determinable.
- Collectibility is probable.

Some criticized SAB No. 101 on the basis that the criteria in SOP 97-2 were developed for a particular industry and that broader application of those criteria was neither contemplated nor intended. They asserted that that guidance may not be appropriate for certain recognition issues, including some that the EITF has considered. Others noted that a SAB is designed to provide the SEC staff's interpretive responses and not to change GAAP. For that reason, SABs are issued without an invitation for comment. Critics argued that SAB No. 101 had in fact changed GAAP by promulgating changes in industry practice without the full due process and deliberation that characterize the FASB's decision-making process. Even though the SEC guidance for revenue recognition applies only to SEC registrants, the work done in developing and implementing SAB No. 101 has focused attention on revenue recognition issues and will be very useful in this project.

In response to these issues, the FASB has undertaken a project to develop a comprehensive statement on revenue recognition that is conceptually based and framed in terms of principles. The FASB is partnering with the International Accounting Standards Board (IASB) on this project.

The planned comprehensive revenue recognition Statement will (1) eliminate the inconsistencies in the existing authoritative literature and accepted practices, (2) fill the voids that have emerged in revenue recognition guidance in recent years, and (3) provide a conceptual basis for addressing issues that arise in the future.

Proposed FASB Statements, Interpretations, and Other Guidance

Proposed FASB Statement *The Hierarchy of Generally Accepted Accounting Principles*

This proposed Statement would identify the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental companies that are presented in conformity with U.S. GAAP (or the GAAP hierarchy). The GAAP hierarchy is currently presented in AICPA AU section 411, *The Meaning of* Present Fairly in Conformity With Generally Accepted Accounting Principles (AICPA, *Professional Standards*, vol. 1). However, the FASB believes that the GAAP hierarchy should be directed specifically to companies because it is the company, not the auditor, that is responsible for selecting its accounting principles for financial statements. Accordingly, the FASB concluded that the GAAP hierarchy should reside in the accounting literature established by the FASB. The FASB decided to carry forward the GAAP hierarchy as set forth in AU section 411, subject to certain modifications. The proposed Statement would be effective for fiscal periods beginning after September 15, 2005. Readers should be alert for the issuance of a final Statement, which is expected in the third quarter of 2005.

Proposed FASB Statements *Business Combinations*, and *Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries*

In these proposed Statements, the FASB plans to revise the existing guidance on the application of the purchase method. The following are among the main proposals:

1. That all acquisitions of businesses be measured at the fair value of the business acquired.

2. That substantially all of the assets acquired and liabilities assumed of the acquired business be recognized and measured at their fair values at the acquisition date.

3. That entities that follow U.S. GAAP and international standards apply substantially the same accounting requirements for their business combinations.

Issuance of the exposure drafts on business combinations, purchase method procedures, and noncontrolling interests are expected. The FASB's goal is to issue the two final Standards in the third quarter of 2006. The target effective date for the two proposed Statements is for fiscal years beginning on or after December 15, 2006.

Proposed FASB Statements *Accounting for Transfers of Financial Assets, Accounting for Servicing of Financial Assets*, and *Accounting for Certain Hybrid Financial Instruments*

The exposure draft, *Accounting for Transfers of Financial Assets*, is a revision of a June 2003 exposure draft, *Qualifying Special-Purpose Entities and Isolation of Transferred Assets*, and would amend FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. The proposed Statement seeks to (1) clearly specify the circumstances that require the use of a qualifying SPE in order to derecognize all or a portion of financial assets, (2) provide additional guidance on permitted activities of qualifying SPEs, (3) eliminate the prohibition on a qualifying SPE's ability to hold passive derivative financial instruments that pertain to beneficial interests held by a transferor, and (4) revise the initial measurement of interests related to transferred financial assets held by a transferor. The effective dates associated with this proposed Statement vary; refer to the exposure draft for further information.

The exposure draft, *Accounting for Servicing of Financial Assets*, would also amend Statement No. 140. The proposed Statement would (1) require all separately recognized servicing rights to be initially measured at fair value, if practicable; (2) permit an entity to choose between two measurement methods for each class of separately recognized servicing assets and liabilities; and (3) require additional disclosures for all separately recognized servicing rights. The proposed Statement would be effective for transactions occurring in the earlier of the first fiscal year beginning after December 15, 2005, or fiscal years that begin during the fiscal quarter in which the Statement is issued.

The proposed Statement, *Accounting for Certain Hybrid Financial Instruments*, would amend FASB Statement No. 140 and FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. Specifically, the proposed Statement would (1) permit fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, (2) clarify which interest-only strips and principal-only strips are not subject to the requirements of Statement 133, (3) establish a requirement to evaluate beneficial interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, (4) clarify that concentrations of credit risk in the form of subordination are not embedded derivatives, and (5) eliminate restrictions on a qualifying SPE's ability to hold passive derivative financial instruments that pertain to beneficial interests that are themselves or that contain a derivative financial instrument. The proposed Statement would be effective after the earlier of fiscal years beginning after December 15, 2005, or fiscal years that begin during the fiscal quarter in which the Statement is issued.

Readers should be alert for the issuance of final Statements, which is expected in the first quarter of 2006. See the FASB Web site at www.fasb.org for complete information.

Proposed FASB Statement *Fair Value Measurements*

In June 2004, the FASB published an exposure draft of a proposed Statement, *Fair Value Measurements*, which seeks to establish a framework for measuring fair value that would apply broadly to financial and nonfinancial assets and liabilities, improving the consistency, comparability, and reliability of the measurements. The fair value framework would clarify the fair value measurement objective and its application under authoritative pronouncements that require fair value measurements. The exposure draft would replace any current guidance for measuring fair value in those pronouncements and would expand current disclosures. Readers should be alert for the issuance of a final Statement, which is expected in the first quarter of 2006. Refer to the FASB Web site at www.fasb.org for complete information.

Proposed FASB Statement *Earnings per Share—an amendment of FASB Statement No. 128*

This proposed Statement would amend the computations guidance in FASB Statement No. 128, *Earnings per Share*, for calculating the number of incremental shares included in diluted shares when applying the Treasury stock method. Also, this proposed Statement would eliminate the provisions of FASB Statement No. 128 that allow an entity to rebut the presumption that contracts with the option of settling in either cash or stock will be settled in stock. In addition, this proposed Statement would require that shares that will be issued upon conversion of a mandatorily convertible security be included in the weighted-average number of ordinary shares outstanding used in computing basic earnings per share from the date when conversion becomes mandatory. Readers should be alert for the issuance of a final Statement, which is expected to be released in the third quarter of 2005.

Proposed FASB Interpretation *Accounting for Uncertain Tax Positions*

In July 2005, the FASB published an exposure draft of a proposed Interpretation, *Accounting for Uncertain Tax Positions*, which seeks to reduce the significant diversity in practice associated with recognition and measurement in the accounting for income taxes. It would apply to all tax positions accounted for in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. Specifically, the exposure draft requires that a tax position meet a "probable recognition threshold" for the benefit of the uncertain tax position to be recognized in the financial statements.

This threshold is to be met assuming that the tax authorities will examine the uncertain tax position. The exposure draft also contains guidance with respect to the measurement of the benefit that is recognized for an uncertain tax position, when that benefit should be derecognized, and other matters. The effective date of the proposed Interpretation would be as of the end of the first fiscal year ending after December 15, 2005. A final Interpretation is expected to be released in the fourth quarter of 2005.

Proposed FASB EITF Issues

Numerous open issues are under deliberation by the EITF. Readers should visit the FASB Web site at www.fasb.org/eitf/agenda.shtml for complete information.

Proposed FASB Staff Positions

A number of proposed FASB Staff Positions are in progress addressing issues related to FASB Statements No. 13, No. 123(R), and No. 140, and FASB Interpretation No. 45. Readers should visit the FASB Web site at www.fasb.org/fasb_staff_positions/proposed_fsp.shtml for complete information.

AICPA Resource Central

The following publications deliver valuable guidance and practical assistance.

- Audit and Accounting Guide *Construction Contractors* (product no. 012585kk). The Audit and Accounting Guide as of May 1, 2005, summarizes applicable practices and delivers "how-to" advice for handling almost every type of financial statement. It describes relevant matters, conditions, and procedures unique to the construction industry, and illustrates treatments of financial statements and reports to caution auditors and accountants about unusual problems. This Audit and Accounting Guide is available now as a CD-ROM or Online subscription.

- Checklist Supplement and Illustrative Financial Statements *Construction Contractors* (product no. 008925kk). Developed by AICPA's Accounting and Auditing Publications staff as a supplement to *Corporations Checklists and Illustrative Financial Statements* (product no. 008935kk), this practice aid is invaluable to anyone who prepares financial statements and reports for construction contractors.

- *CPA's Guide to Accounting, Auditing and Tax for Construction Contractors* (2004 Paperback) (product no. 091014kk). Here's the definitive resource—complete with information on the specialized requirements that affect contractors—that is perfect for CPAs in public practice and in the construction industry. Based on the AICPA's best-selling CPE self-study course, this newly revised guide covers everything from GAAP accounting methods to auditing and review services performed by outside CPAs and important tax rules for contractors.

- *Accounting Trends and Techniques—2005* (product no. 009897kk). It is the must-have resource for any CPA who frequently creates or uses financial reports. Filled with current reporting techniques and methods used by the nation's top organizations, this 650-page AICPA bestseller will provide guidance you need to improve your accounting preparation and procedures.

- Practice Aid *Preparing and Reporting on Cash- and Tax-Basis Financial Statements* (product no. 006701kk). Authoritative guidance on cash- and tax-basis financial statements is rather vague and leaves a great deal to professional judgment. Section One of this publication provides nonauthoritative, practical guidance on preparing and reporting on cash- and tax-basis financial statements. Section Two includes example financial statements, disclosures, and other engagement practice aids. The appendix provides an example checklist to be used for cash- and tax-basis financial statements.

AICPA reSOURCE: Online Accounting and Auditing Literature

AICPA has created your core accounting and auditing library online. AICPA reSOURCE is now customizable to suit your preferences or your firm's needs. Or, if you prefer to have access to the entire library—that's available too! Get access—anytime, anywhere—to the AICPA's latest *Professional Standards*, Technical Practice Aids, Audit and Accounting Guides (more than 20!), Audit Risk Alerts (more than 15!), and *Accounting Trends and Techniques*. To subscribe to this essential online service for accounting professionals, go to cpa2biz.com.

Educational Courses

The AICPA has developed a number of continuing professional education (CPE) courses that are valuable to CPAs working in the construction industry. Those courses include:

- *Construction Contractors: Accounting, Auditing and Tax* (product no. 736429kk). Master the fundamentals of the construction industry with this highly effective course. An outstanding value, it provides a thorough industry overview and includes AICPA authoritative publications. Content is tailored to the needs of both practitioners and industry financial professionals.
- *Construction Contractors Advanced Issues* (product no. 731991kk). Delve beyond the basics of many issues the construction industry brings to the accounting profession. Get hands-on advice on the accounting, audit, and tax issues that make the construction industry a high-risk client. Address difficult issues such as look-back calculations, measuring progress of construction contracts, and overhead allocations. Enhance your skills today to reduce the risk of your next construction engagement.
- *Construction Contractors Strategic Briefing* (CD-ROM of Webcast originally presented on November 4, 2004) (product no. 780034kk). This course provides a strategic look at what's important in the area of construction con-

tractors. The program addresses the current economic and industry environment, the regulatory environment, current accounting developments, current auditing developments, and what's on the horizon that could affect this industry segment.

- *Real Estate Accounting and Auditing* (product no. 730604kk). This course provides an in-depth study of the unique requirements that apply at each stage of the real estate life cycle. It gives practical, how-to-do-it coverage of accounting considerations related to the development, ownership, and operation of real estate assets.

Accountants in the construction industry, as well as in other industries, may also find the following courses helpful:

- *FASB Review for Industry* (2005-2006 edition) (product no. 730562kk). Comprehensive coverage of recent FASB, AcSEC, IASB, and EITF pronouncements is provided in this course geared to the specific interests of the CPA in corporate management.

- *Accounting Update: A Review of Recent Activities* (2005 Edition) (732761kk). This course keeps you current and shows you how to apply the most recent financial accounting and reporting standards. Highlights include FASB Interpretation No. 46 on variable interest entities, fair value concepts and measurements, and the revised FASB Statement No. 123 on share-based payment.

- *AICPA's Annual Accounting and Auditing Update Workshop* (2005 edition) (product no. 736181kk, text; also available in video and DVD formats with a manual). Whether you are in industry or public practice, this course keeps you current and informed and shows you how to apply the most recent standards.

- *Accounting for Income Taxes: Applying SFAS No. 109* (product no. 732790kk). No other area in accounting is as far reaching, and requires knowledge of a vast number of topics in financial and tax accounting, as accounting for deferred taxes. This course addresses the application of this complex standard to many common differences between financial accounting and tax compliance. You will gain a sound knowledge of the theory of deferred taxes and how this theory can be applied to practical situations. Many practical examples are included to illustrate the theory, and the information is presented so you will be able to apply this theory to any other situation that you may encounter.

- *The AICPA's Guide to Business Consolidations, Goodwill and Other Consolidation Issues* (product no. 735129kk). Learn how FASB Statements No. 141 and No. 142 have changed the rules for business combinations and goodwill accounting. Develop standards for applying purchase accounting and how to allocate the acquired entity now that it's the only game in town under FASB Statement No. 141. Identify variable interest entities' impact under FASB Interpretation No. 46(R). Learn how FASB Statement No. 142 deals with goodwill from initial recognition to the annual impairment review requirements.

For a listing of additional courses available please download the *Fall/Winter 2005 AICPA CPE Catalog* at media.cpa2biz.com/Publication/05_fall_winter_FINAL.pdf. You can also check at www.cpa2biz.com/CPE/default.htm for availability of a more recent catalog.

Online CPE

AICPA InfoBytes, offered exclusively through CPA2Biz.com, is the AICPA's flagship online learning product. Selected as one of *Accounting Today*'s top 100 products for 2003, AICPA InfoBytes now offers a free trial subscription to the entire product for up to 30 days. AICPA members pay $149 ($369 nonmembers) for a new subscription and $119 ($319 nonmembers) for the annual renewal. Divided into one- and two-credit courses that are available 24/7, AICPA InfoBytes offers hundreds of hours of learning in a wide variety of topics. To register or learn more, visit www.cpa2biz.com/infobytes.

Webcasts

Stay plugged in to what's happening and earn CPE credit right from your desktop. AICPA Webcasts are high-quality two-hour CPE programs that bring you the latest topics from the profession's leading experts. Broadcast live, they allow you to interact with the presenters and join in on the discussion. If you can't make the live event, each Webcast is archived and available on CD-ROM.

CFO Quarterly Roundtable Series

The CFO Roundtable Webcast Series—brought to you each calendar quarter—is designed to cover a broad array of "hot topics" that successful organizations employ and subjects that are important to the CFO's personal success. From financial reporting and budgeting and forecasting, to asset management and operations, the roundtable helps CFOs, treasurers, controllers, and other financial executives excel in their demanding roles.

SEC Quarterly Update Series

The SEC Quarterly Update Webcast Series—brought to you each calendar quarter—showcases the profession's leading experts on what's "hot" at the SEC. From corporate accounting reform legislation and new regulatory initiatives to accounting and reporting requirements and CorpFin activities, these hard-hitting sessions will keep you "plugged-in" to what's important. A must for both preparers in public companies and practitioners who have public company clients, this is the place to be when it comes to knowing about the areas of current interest at the SEC.

Member Satisfaction Center

To order AICPA products, receive information about AICPA activities, and find help on your membership questions, call the AICPA Service Operations Center at (888) 777-7077.

Technical Hotline and Ethics Hotline

Do you have a complex technical question about GAAP, other comprehensive bases of accounting (OCBOA), or other technical matters? If so, use the AICPA's Accounting and Auditing Technical Hotline. AICPA staff will research your question and call you back with their answer. You can reach the Technical Hotline at (888) 777-7077.

In addition to the Technical Hotline, the AICPA also offers an Ethics Hotline. Members of the AICPA's Professional Ethics Team answer inquiries concerning independence and other behavioral issues related to the application of the AICPA Code of Professional Conduct. You can reach the Ethics Hotline at (888) 777-7077.

Conferences

Among the many interesting conferences the AICPA offers, there is one that might interest you. Held late each fall, the AICPA National Construction Industry Conference presents a comprehensive program revealing latest trends and developments in the construction industry. The conference offers a national perspective and addresses the newest trends in conducting business, among other topics.

For additional information, contact CPA2Biz at its Web site, cpa2biz.com.

Web Sites[1]

AICPA Online and CPA2Biz

Here is a unique opportunity to stay abreast of matters relevant to the CPA profession! AICPA Online, at aicpa.org, informs you of developments in the accounting and auditing world as well as developments in congressional and political affairs affecting CPAs. In addition, cpa2biz.com offers you all the latest AICPA products, including more than 15 Audit Risk Alerts, more than 20

1 Additional helpful Web sites are presented in Appendix A.

Audit and Accounting Guides, the professional standards, and CPE courses.

Construction Contractors Industry Developments will be published annually. As you encounter accounting or industry issues that you believe warrant discussion in next year's Alert, please feel free to share them with us. Any other comments that you have about the Alert would also be appreciated. You may e-mail these comments to ymishkevich@aicpa.org or write to:

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APPENDIX: HELPFUL WEB SITES

Here are some useful Web sites that may provide valuable information. In addition to these Web sites, be sure to review those listed in the "On the Horizon" section of this Alert.

General Web Sites of Interest

Name of Site	*Content*	*Internet Address*
American Institute of CPAs	Summaries of recent auditing and other professional standards as well as other AICPA activities	www.aicpa.org
Financial Accounting Standards Board	Summaries of recent accounting pronouncements and other FASB activities	www.fasb.org
AuditNet	Electronic communications among audit professionals	www.auditnet.org
CPAnet	Links to other Web sites of interest to CPAs	www.cpalinks.com/
Accountant's Home Page	Resources for accountants and financial and business professionals	www.computercpa.com/
U.S. Tax Code Online	A complete text of the U.S. Tax Code	www.fourmilab.ch/ustax/ustax.html
Cybersolve	Online financial calculators, such as ratio and breakeven analysis	www.cybersolve.com/tools1.html
FedWorld. Gov	U.S. Department of Commerce-sponsored site providing access to government publications	www.fedworld.gov
Hoovers Online	Online information on various companies and industries	www.hoovers.com

Name of Site	*Content*	*Internet Address*
Ask Jeeves	Search engine that uses a user-friendly question format and provides simultaneous search results from other search engines (e.g., Excite, Yahoo, AltaVista)	www.askjeeves.com
Governmental Accounting Standards Board	Summaries of recent accounting pronouncements and other GASB activities	www.gasb.org
Society of Industrial and Office Realtors	Industrial and office real estate information	www.sior.com
Engineering News Record	Source of important information for owners, contractors, and design and engineering professionals	www.enr.com
Construction.com	A McGraw-Hill company that unifies the resources of Dodge, Sweets, *Architectural Record*, ENR, and Regional Publications and includes market analysis and forecasting, industry trends, and insights	www.construction.com
Associated Builders and Contractors	A national association representing all specialties within the construction industry and primarily comprising firms that perform work in the industrial and commercial sectors of the industry	www.abc.org
Associated General Contractors of America	An organization of qualified construction contractors and industry-related companies	www.agc.org
Construction Financial Management Association	The only nonprofit organization dedicated to serving the construction financial professional	www.cfma.org

Name of Site	*Content*	*Internet Address*
Construction Industry Compliance Assistance Center	The source for plain language explanations of environmental rules for the construction industry	www.cicacenter.org
Construction Owners Association of America	A focal point and voice for the interests of owners in the construction industry	www.coaa.org
Contractor's License Reference Site	Information about state license requirements, with search functions to find out if a contractor is licensed in a particular state	contractors-license.org/index.html
Home Builders Institute	Dedicated to the advancement and enrichment of education and training programs serving the needs of the housing industry	www.hbi.org
National Association of Home Builders	A trade association that helps promote the policies that make housing a national priority.	www.nahb.org
National Association of the Remodeling Industry	Focusing on educating both trade professionals and remodeling-ready homeowners through a variety of formats including education, training, publications and programs	www.nari.org
Disaster Contractors Network	Facilitating information sharing and resource matching among government, the construction community, home and business owners before, during and after disasters strike	www.dcnonline.org

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